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ON-FILE NSC RELEASE INSTRUCTIONS APPLY

MINUTES
ECONOMIC POLICY COUNCIL

November 5, 1985
1:00 p.m.
Roosevelt Room

Attendees: Messrs. Baker, Block, Baldrige, Brock, Herrington, Miller, Yeutter, Sprinkel, Darman, Taft, Jensen, Svahn, Kingon, McAllister, Danzansky, [redacted] STAT McMinn, Poindexter, Smart, Smith, and Ms. Risque.

1. Report of the Strike Force

Mr. Smart stated that the Strike Force on trade was presenting its recommendations on semiconductors and intellectual property for review by the Economic Policy Council. The Strike Force considered several factors in developing its recommendations including the impact of the unfair trade practice. Mr. Smart briefly reviewed the significance of trade in semiconductors and their critical importance to technological development.

He stated that the U.S. share of the Japanese market is roughly 10-14 percent, and has been so for some time. He stated that Japan has restricted imports of U.S. semiconductor products, while targeting its own semiconductor industry. He suggested that Japan has overinvested in semiconductor production, and products are now being dumped in U.S. markets for less than the cost of production.

He reviewed the three recommendations developed by the Strike Force:

1. Prompt investigation and resolution of the two existing dumping cases. Self-initiation by the Department of Commerce of an antidumping case on 256K RAMs.

2. Support of USTR's accelerated plan for handling the existing 301 case. Support for consideration of a package proposal (addressing both market access and dumping) on semiconductors if the Japanese propose one.

3. Announcement that the President will consider other remedial and/or preemptive actions to ensure U.S. access to Japanese markets.

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Secretary Baldrige emphasized the importance of semiconductors to technology and technological growth. He argued that if the U.S. loses its semiconductor capacity, prospects for future technological development will be damaged. He expressed his support for the recomendations, noting that the Department of Commerce believes it can present a good case that dumping exists.

Ambassador Yeutter stated that the dumping case would be helpful in satisfactorily resolving the Section 301 case initiated by the Semiconductor Industry Association. He expressed some caution about self-initiating an antidumping case, noting that the industry has not argued for such a case. Mr. Smart suggested that the industry has not filed an antidumping case because it is vulnerable to retaliation by the Japanese Government.

The Council discussed a number of issues, including whether the 256K RAM case is a good antidumping case. The Council agreed that the Administration should only initiate antidumping cases against Japanese 256K RAMs if the Department of Commerce is strongly convinced that the dumping exists and the International Trade Commission (ITC) will find injury. The Council also discussed the consequences of a successful antidumping case. The price of imported semiconductors would increase, but because semiconductors are a relatively inexpensive component of products such as computers and automobiles, the impact on prices of final goods generally would not be significant.

The Council also discussed Japanese industrial practices in general and the importance of increasing U.S. competitiveness and productivity through better government policy. Mr. Taft noted that the U.S. is subsidizing our semiconductor industry. Ambassador Yeutter noted that these subsidies are GATT-legal, unlike the dumping practices which the Japanese are alleged to pursue.

The Council discussed at some length recommendation three: to announce that the President will consider other remedial or preemptive actions to ensure U.S. access to Japanese markets. Secretary Baldrige suggested that such a step was necessary to emphasize to the Japanese the Administration's intent on achieving a settlement of the Section 301 cases and the dumping and predatory pricing issues. Several members of the Council expressed some skepticism about the implications of the recommendation. Other members, believing that recommendation three would result in a closing of our markets to critically

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needed high tech products, expressed opposition to the recommendation.

Decision

Secretary Baker asked Mr. McAllister to prepare a memorandum for the President reflecting each agency's views on the three recommendations.

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